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BUSINESS IN DEVELOPING COUNTRIES: HOW DO START-UPS IN DEVELOPING COUNTRIES COMPARE IN PROFITABILITY TO THOSE IN DEVELOPED COUNTRIES?

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ABSTRACT

This research paper discusses the challenges that businesses face when starting operations in developing countries, including inadequate infrastructure, limited access to capital, institutional voids, corruption, and regulatory barriers. Despite these challenges, some businesses have emerged successful in developing countries such as Alibaba, a Chinese multinational company specializing in e-commerce, retail, internet, and technology. The success of businesses in emerging markets is due to their ability to find their way through the market, gain resources, find local partners with years of experience, and develop mechanisms for raising capital and developing talent. This paper explores how businesses can overcome these challenges and develop strategies for success in developing countries.

KEYWORDS: Developing Countries, Profitability, Alibaba.

INTRODUCTION

Choosing the right location for core business operations is a critical decision for entrepreneurs starting their own businesses. The success of a business is directly influenced by its location, and making the wrong choice can disrupt income, reduce chances of success, and hinder turnover. This raises the question for new entrepreneurs of whether to develop their business in developing countries or focus on wealthier and more advanced countries. Several factors need to be considered before addressing this question.

Literature Review

Developing countries often exhibit a high level of total entrepreneurial activity, driven by the need to create jobs and generate income in environments with limited formal employment opportunities (Almodóvar-González, 2020). However, businesses in such countries face significant challenges, including inadequate infrastructure, limited access to capital, institutional voids, corruption, and regulatory barriers. These challenges can have far-reaching social and economic consequences and stem from administrative operations within the country, posing problems for most businesses. For instance, the lack of trust from lenders and financiers due to perceived risks associated with operating in foreign countries can hinder potential deals. Institutional voids pose threats to the initial operations of businesses and can force many firms out of the market. Furthermore, barriers to entry specific to developing countries can significantly impact costs and overall operations. To achieve success, firms in developing nations must exercise caution regarding global competition and implement protective measures such as tariffs, quotas, monetary barriers, and non-tariff barriers imposed by governments, which directly affect business operations. Overcoming cultural differences and attracting customers despite these disparities also presents a challenge.

Despite these challenges, the question arises of how some businesses in developing countries become powerful and gain global recognition. These businesses employ strategies to overcome the aforementioned challenges. Initially, while facing institutional voids, emerging market companies eventually gain resources to secure their position in the market (Khanna & Palepu, 2006). They establish relationships and partnerships, filling institutional voids in the process. Collaboration with local companies experienced in navigating these voids helps identify and meet customer needs in the local market. Capital-raising mechanisms and talent development allow these companies to compete effectively with foreign giants. Connections and resources enable businesses to overcome entry barriers and sustain operations successfully (Khanna & Palepu, 2006).

In terms of talent, intermediaries and organizations facilitate connections between emerging market companies and skilled professionals from developed countries. Business schools, educational programs, staffing agencies, and recruitment services play significant roles in this regard.

Furthermore, once emerging market companies demonstrate success, accessing capital becomes easier (Khanna & Palepu, 2006). The success of these companies instills investor confidence and attracts more capital, as investors seek growth and profitability opportunities. Emerging market companies can tap into capital and talent markets in developed countries to leverage these opportunities.

Alibaba

Alibaba, a Chinese multinational company, is a notable example of a startup that has achieved significant success in a developing country. The company, which specializes in e-commerce, retail, internet, and technology, was established by Jack Ma, a former English teacher, in 1999. However, the idea sparked in Ma's mind in 1995, when he first discovered the internet through a friend. Upon searching for the word "beer," Ma realized that all foreign brands from around the world were listed, except for those from China. This led him to believe that China was disconnected from the rest of the world, sparking his ambition to connect China with the global market (Chiffey, 2022).

Ma's journey to success was far from smooth sailing. He had previously established two businesses, Haibo Translation Agency and China Pages, both of which failed (Milestone Magazine, 2021). However, his ultimate objective of connecting China with the rest of the world drove him to persist and establish Alibaba. One of the main reasons for Alibaba's success was Ma's keen eye for identifying market gaps and taking steps to address them. He recognized what was lacking in the market and developed a product to fill that gap. Furthermore, Ma was well-informed not only about his product and its abilities but also about the market and his competitors, which ultimately led him to create SMART objectives and lay the path for success.

Today, Alibaba is one of the most valuable companies in the world, with a worth of billions of dollars. The current market valuation of the Alibaba company reached 215.33 billion dollars (2023). Ma's success has also led to the creation of 10 additional billionaires and the employment of a hundred thousand staff. While Ma faced numerous challenges in his pursuit of success, he was able to ultimately achieve his goals.

Through this example, it is evident that starting a successful business in a developing country requires not only a solid vision but also determination and an unwavering belief in oneself. While not everyone can harness their potential to become successful entrepreneurs, it is crucial to recognize that businesses fail not only in developing but also in developed countries. In conclusion, Ma's success with Alibaba serves as an inspiration for aspiring entrepreneurs to take risks, identify market gaps, and pursue their vision with tenacity.

How To Make A Decision

The main question that must be addressed regarding establishing a business in developing countries is how to make a decision that will lead to the success and survival of the business. Market positioning in developing countries can confer significant advantages, particularly for emerging industries or small businesses (Doherty, 2020), but it is also crucial to approach this decision with caution. Investment in developing countries requires astuteness, as many businesses fail. Successful businesses often result from clear planning and careful selection of products or services with potential. Entrepreneurs must conduct extensive market research to understand the market, potential and existing customers, competitors, and challenges that may arise (Laverty & Littel, 2020). Such considerations facilitate a better understanding of customer needs and the prevailing circumstances (Laverty & Littel, 2020); enabling businesses to formulate appropriate strategies to generate profit. In developing countries, for instance, businesses operating in the agricultural sector may fail within the first few years, while techno companies can thrive, leveraging cheap labor and low costs to generate significant profits. Business owners could, eventually, use this information to create a business plan to secure loans from financial lenders and

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raise finance from investors. Thus, careful consideration of these factors is essential for investors seeking to make informed decisions.

Firstly, The decision regarding the location of a business heavily relies on the level of demand for the product or service being offered. Establishing a business in a market with minimal or nonexistent demand may prove unfeasible, unless alternative means of distribution are available to access areas where demand exists. It is crucial to consider locations where demand is high but competition is low, as this can offer significant advantages for businesses seeking to secure a position in a new market (Lauckner, 2020). Developing countries may offer attractive opportunities in this regard, provided that the market conditions and regulatory environment are favorable for business operations. Aside from the problem with demand, there might be many other factors that could affect your business in developing countries. PESTLE or STEEPLE analysis could be a great tool to gain a macro picture of an industry environment (University of Sydney, n.d.). It helps businesses conduct a risk assessment of the emerging economies market by assessing the Political, Economic, Social, Technological, Legal, and Environmental factors that could affect the business and the future job market. Consequently, incorporating PESTLE analysis into the business planning process can prove advantageous.

The process of market assessment plays a critical role in effectively positioning a product within a given market, as it evaluates the product's potential for success (Ansarada, n.d.). This assessment involves evaluating its competitive advantage and determining whether it has the potential to become a unique selling point (USP). To do this, businesses can use the VRIO model. The tool analyzes the product's competitiveness based on four key factors: whether it is Valuable, Rare, Difficult to Imitate, and Supported by Organization. Using the VRIO model, businesses can make informed decisions about the products they choose to offer and increase their chances of success in the marketplace (Hodges, 2019).

After assessing a product's potential for success, it becomes crucial to develop business strategies to gain a competitive advantage. The key to survival in the market lies in achieving higher or equal profits compared to competitors by establishing a competitive advantage. This entails outperforming industry rivals and generating higher profit margins to attract more customers (Indeed, 2022). Porter's generic strategies provide a valuable framework for strategic market positioning, enabling organizations to make optimal choices in pursuit of this objective. These strategies revolve around competitive scope and advantage and encompass Cost Leadership, Cost Focus, Differentiation, and Focus Differentiation. Entrepreneurs can select and align their operational approach with the specific nature of their business and industry. This strategic clarity and focus empower businesses to make informed and efficient decisions.

In the context of expanding business operations to foreign countries, it is also essential to recognize and adapt to the cultural and religious values of the region. Acknowledging the cultural and religious values of your customer base would have a positive influence on the brand image and reputation; increasing the chances of success and leading to long-term growth and profitability for the business (Nickerson, 2023). Failure to do so however can lead to the decline of the business and result in financial loss *(Chron Contributor, 2020)*. Adapting to cultural and religious values may involve making changes to your business practices or marketing strategies to align with the cultural norms of the region. For example, in some countries, it may be inappropriate to market products in a certain way, or it may be necessary to adjust work schedules to accommodate religious practices. Hofstede's cultural dimensions are a framework used to understand the differences in culture across countries and ultimately adapt their products and marketing to different cultures using six key dimensions including Power Distance, Uncertainty Avoidance, Individualism-Collectivism, Masculinity-Femininity, and Short vs. Long-term Orientation. Later, researchers added Restraint vs. Indulgence to this list.

Budget considerations are also a critical factor in deciding on a business location. When making this decision, it is essential to ensure that the location fits within the company's budget, taking into account various hidden costs such as taxes, renovation expenses, utility upgrades, minimum wage requirements, and economic incentives. Additionally, brand considerations should not be overlooked, as the product or service being offered, its design, features, status, and price all play a role in determining the optimal location for the business. For instance, a high-end boutique may struggle to survive in a rural area where there is limited demand for luxury goods. Therefore, a comprehensive analysis of various factors should be conducted before deciding on the location for a new business venture.

Most importantly, for businesses that are looking to invest in developing countries, it's essential to do research on the skill base in the area. It's important to know whether the workforce in the area can fulfill the organization's needs and whether there is enough labor force available for recruitment by looking at the employment rates in the area. If you rely on skilled workers it is best to go to where there is a healthy bank of talent. Employees are often a business's biggest asset, thus choosing a location that's lacking in required talent may be the start of your business's downfall (How to choose a business location, n.d.).

For large businesses or those aspiring to become one, a viable strategy is to establish manufacturing facilities and service centers in developing countries and market their products in wealthier and more developed countries; a strategy that is currently widely used by many successful multinational corporations (MNCs) all around the world. An example of this is the decision of Samsung Electronics to focus on production in emerging markets such as Vietnam, Latin America (Eun-jin, 2020), and Africa or to invest in smart manufacturing capabilities, research, and development in India to bring competitiveness into production by reducing production costs (The Economic Times, 2023). Though shipping and distribution channels might pose a challenge, a well-crafted market plan can overcome these obstacles.

Ultimately, most of the suggestions made in this research regarding the budget and choosing the most appropriate business location and product aren't only specific to emerging economies and can be carried out when establishing a business in any country. Emerging economies however provide some unique advantages that if utilized properly, could bring so many opportunities to the business. The strategies mentioned in this research help avoid the risks of doing business in developing countries and benefit from the countless advantages it could provide.

CONCLUSION

The business environment in developing countries is characterized by a range of complexities and challenges that require careful consideration and strategic planning. Despite these challenges. However, there are numerous opportunities for growth and innovation that exist within these markets. Entrepreneurs who are able to navigate the complex regulatory and cultural landscape of developing countries may find themselves well-positioned to take advantage of these opportunities and build successful and sustainable businesses that can thrive in these dynamic and rapidly-evolving markets. In this research, an example of a successful former unicorn was discussed. However, gaining an insight into the operations of failed unicorns in other developing countries would provide more information on the reasons for the failure of so many start-up businesses and set an example to operate differently for future success.

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